Massey-Ferguson's Statement
on the **SPECIAL REPORT ON PRICES** of the
ROYAL COMMISSION ON FARM MACHINERY

MASSEY-FERGUSON LIMITED
Toronto, March 3, 1970

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SPECIAL REPORT ON PRICES

The following are the comments of Massey-Ferguson Limited on the two related reports of the Royal Commission on Farm Machinery, Farm Tractor Production Costs and Special Report on Prices. In our opinion, these two reports are in many respects misleading and do not justify some of the conclusions reached by the Commission. In particular, the facts do not support the Commission's assertion that "handsome profits" are being made on tractors sold in Canada. Based on its mistaken assumption of "handsome profits", the Commission's prime recommendation is that the Canadian Government should take steps to bring about a reduction in the prices of tractors, leaving, however, a margin of profit for the manufacturers.

Massey-Ferguson's overall comment on this basic recommendation is that for tractors sold in Canada, our after-tax profit margin in 1966 was 3.1% and in 1969 was 3.2% which includes profit earned by all subsidiaries involved. On sales of all farm machinery in Canada for the past two years, Massey-Ferguson has incurred losses. We find no reason to anticipate that our earnings in Canada will return to an acceptable level in the present unfavourable market environment which includes severe inflationary pressures.

Massey-Ferguson believes that it has an obligation to its shareholders and to its employees to work toward restoring our Canadian farm machinery sales to a profitable position.

We further believe that tractor prices in Canada today reflect competitive forces which have always been highly significant in the farm machinery market and that they will continue to be so. All farm machinery manufacturers anywhere in the world have had since 1944 duty-free access to the Canadian market.

We do not believe, however, that any manufacturer from outside North America could sell any significant quantity or range of tractors in Canada on a continuing basis, with the service and parts facilities required by the market, at price levels more than nominally below those currently prevailing.

Tractor Production Costs

During the Royal Commission's enquiry into the price of farm machinery in Canada, it attempted to estimate the costs of manufacturing tractors. With the assistance of outside consultants, the Commission initially estimated the costs of production of three models of tractors in annual volumes of 20,000, 60,000 and 90,000 units. The estimates for North America are in the Commission's study Farm Tractor Production Costs. Similar estimates for production costs in Britain are in chapter 6 of the Special Report on Prices.

The Commission's estimates of costs of production in a model tractor plant in North America do not accord with actual costs. Briefly, the principal erroneous assumptions are:

1) Only three models of tractors (of 40, 90 and 130 horsepower) are considered. In fact, to meet demand in the highly diversified and sophisticated North American tractor market (resulting from the wide variety of farming practices, crops, climate, soil and other conditions in Canada and the United States), manufacturers must offer a minimum of 6 and, to be competitive, up to 10 basic models, with a combination of different engine, transmission, rear axle and other major variations.

2) The model factory is only two years old, with the most modern technology and with a high level of efficiency having been attained. In our experience, the implied level of efficiency is impossible to achieve by the start of the third year of operation, even under ideal conditions. Even if a manufacturer had such modern facilities, the continuing requirements for design modifications, the need for periodic updating and changing of production tooling and the turnover of labour all serve to create operating inefficiencies on a continuing basis. The manufacturer cannot attain the low levels of production costs envisaged by the Commission

insofar as those low costs result from these ideal circumstances postulated by the Commission.

3) The Commission favours having between five and ten manufacturers producing all the tractor requirements of the non-Communist world. This concentration of production would permit economies of scale not generally available today. In addition, the Commission implies that these five to ten remaining companies should, at the time of increasing their productive capacity, obtain the benefits of new facilities with the most modern machinery and equipment. The Commission estimates that it would require an investment of $228 million (Canadian) for productive capacity of 90,000 units annually.

To permit this, the assumption was made that there are no constraints on the availability of funds and that such funds can be raised through borrowing at a cost of 7.5% before tax.

We believe this understates the actual cost of such a factory in terms of facility and equipment cost. To raise such an amount in today's money market would be virtually impossible, even if the farm machinery industry could achieve reasonable profitability. But assuming it could be raised, there would be a requirement for a mixture of

debt and equity funds which Massey-Ferguson believes would, in 1967, have cost between 12% and 14% before tax, not 7.5%; equity money is generally more expensive than borrowing.

4) A smooth and consistent annual output is assumed at production levels of 20,000, 60,000 and 90,000 units. The Special Report on Prices goes even further by using an annual output of 120,000+ units. On the basis of estimated information, no North American manufacturer has achieved over the last four years an average annual output of 60,000 tractors nor has any achieved a smooth output. This is illustrated in the following table:

	Average Annual Production 1966 - 1969	High Production Year	Low Production Year
Massey-Ferguson (actual)	32,000 units	38,000	26,000
John Deere	56,000 units	70,000	47,000
International Harvester	52,000 units	58,000	43,000

5) The cost study of the model factory divides the annual production of tractors into three categories of horsepower: 30% in the 40 HP category; 60% in the 90 HP; and 10% in the 130 HP. This assumption fails to reflect the actual situation in the market place as shown in the following table and thus substantially distorts relative costs of production in the different horsepower categories:*

	1968 Total Unit Volume	% of 1968 Ag. Tractor Sales by HP		
		Under 60 HP	60-100 HP	over 100 HP
Industry Tractor Sales				
North America	183,200	42%	50%	8%
Canada	23,100	56%	36%	8%
Europe (including Britain)	327,600	84%	16%	-
Britain	33,400	85%	15%	-

* This table utilizes the standard categories used by the industry for reporting its sales, as developed by the Dominion Bureau of Statistics in Canada, the Census Bureau in the United States, and the Agricultural Engineers Association in Britain.

6) The cost study deduced and included in its calculation a theoretical and arbitrary reduction to purchased parts costs on the basis of the difference between the consultants' calculated costs and the "confidential" actual costs for a 40 HP tractor. The study then applies this "purchasing" saving to the cost calculations for all tractors. In fact, this reduction in cost of a 40 HP tractor arises from the higher concentration of volume in this horsepower category (as mentioned above) rather than any economies of purchasing applicable across the whole range of tractor models. Therefore, this cost reduction cannot be applied to any other horsepower tractor.

7) The Special Report states on page 75 that, "For Massey-Ferguson... tractors for the Canadian market are assembled in their factory in Detroit, from components largely imported from England and France." The press release issued by the Commission refers to Massey-Ferguson tractors "built in lower-cost, high-volume British plants" and states in another passage that "Massey-Ferguson tractors are assembled in Detroit from British components." In fact, only one-half of the components of a Detroit-assembled tractor are sourced from outside North America. To suggest that Massey-Ferguson assembles in Detroit tractors from "lower cost" European sources is an oversimplification which distorts the Commission's estimates of costs of production.

In summary, the actual costs of production incurred by any single manufacturer are substantially different from those assumed by the Commission. This results from the facts that:

(a) production by the industry as a whole is divided among horsepower categories in a different manner than that selected by the Commission;

(b) production by individual manufacturers is not in the proportions used by the Commission; economies of scale are different among the horsepower categories;

(c) individual manufacturers have widely varying production from year to year; use of any single production level by the Commission in developing its conclusions is inapplicable to individual manufacturers.

Distribution and Other Overhead Costs

If the final cost of a tractor bought by a Canadian farmer is to be estimated accurately, first the actual costs of manufacturing must be determined. Then the costs of distributing the tractor in the widely dispersed Canadian market with its particular selling practices and support services must be considered. The Special Report recognizes (in appendix D) the existence of certain unavoidable distribution and overhead costs. The Commission appears to be aware that, in determining the final costs, these elements should be accorded importance. It comes to no conclusions, however, and simply states in chapter 4 that, "on the extent to which these additional costs are justified, the Commission at this point reserves judgment." In view of the obvious significance of these costs, it is surprising that the Commission so readily sets them aside. This is particularly so when it indicates that a further report will deal with them in detail. It would have been highly desirable if all the factors under study had been taken into consideration before conclusions were announced.

The table at exhibit I illustrates the importance of these charges and the incomplete nature of the Commission's estimates, inasmuch as they pertain to Massey-Ferguson.

The table demonstrates that Massey-Ferguson is earning $343 less profit on a MF 165 tractor sold in Canada than the Commission estimates. In a similar manner, the Commission also understated actual cost, thus overstating profit for the MF 135 tractor by the amount of $184.

Contrary to the estimates of the Commission, Massey-Ferguson showed lower profitability on its world-wide operations in 1968 and 1969 on the sale of a MF 135 tractor assembled in Detroit than it did in Britain on a similar tractor assembled in Coventry. In 1968 and 1969, Massey-Ferguson showed only moderately greater profitability on the sale in Canada of a MF 165 tractor. Moreover, as is recorded in table 5.3 of the Special Report, this tractor is priced in Canada at 12% below the average competitive price, in terms of price per horsepower.

Having applied its estimates about manufacturing, distribution and overhead costs to Massey-Ferguson, it is not surprising that the Commission was then led to mistaken conclusions about the "very handsome profit margins" which it supposes Massey-Ferguson is making. It is unfortunate that in its Special Report and in Farm Tractor Production Costs, the Commission has employed analyses which lead to conclusions greatly at variance with the facts in the industry as we know them.

"Savings" to Canadian Farmers

Critique of the Commission's "Savings" Analysis.

The Commission states in chapter 4 of its Special Report that the Canadian farmer would have made a cash saving of $8.6 million in the 1967 selling season, $14.9 million in the 1968 season (after sterling devaluation) and a similar saving for 1969, if he could have purchased in Britain all the tractors of the lower horsepower range (at retail prices then prevailing) and brought them to Canada. The Commission's estimates make allowance only for ocean transport and handling and additional domestic freight and exclude costs of distribution.

Certain adjustments must accordingly be made in the Commission's computations.

The costs discussed below are a natural result of what would happen upon full importation by farmers (or their agents) of all their tractors under 60 HP (which account for 56% of Canada's total tractor requirements). Massey-Ferguson has based its estimates of these unavoidable costs on its own experience of the Canadian market. Variations in specific estimates occur in individual circumstances, but their total order of magnitude would, in our experience, remain as we state below:

(1) The Commission has used 1967 unit sales in computing supposed savings for 1968. According to the Dominion Bureau of Statistics, there was a decrease in sales in Canada of tractors up to 60 HP from 14,276 units in 1967 to 12,119 units in 1968 (the volume used in all our calculations below). Correction of this error alone reduces the supposed savings from the estimated $14.9 million in 1968 to $12.8 million.

(2) The Commission also presents an unrealistic estimate of the purchase price to the Canadian farmer of a North American built tractor. Based on 1966 data, the Commission assumes that the purchase price for the farmer was the suggested list price less 16%. While this was accurate enough for 1966, competitive action since has forced prices downward. In response, Massey-Ferguson implemented special discounts in 1967 which continued in 1968 and 1969.* Applied across the industry, the effect of these discounts results in a further reduction of $900,000 in the supposed savings for 1968, lowering the total to $11.9 million.

(3) The Commission's estimates also overlook the costs of a wide variety of support services now provided by manufacturers and dealers and covered by the selling price. If farmers were themselves to import their tractors, they would have to pay separately for the following:

* These dealer discounts had by 1969 reduced the selling price to the farmer by $168 on MF 135 tractors and by $273 on the MF 165.

		Estimated Average charge per unit:
A.	Interest charges on full cash payments during the period from the date the tractor is ordered to delivery; minimum 8 weeks at 10%	$ 40
B.	Service charges in Britain and Canada (including the commission paid to those involved in locating and shipping British tractors to Canada)*	150
C.	Pre-delivery service and equipment adjustments	40
D.	Repair costs during the first year which would otherwise be absorbed under the manufacturer's warranty	50
	Total charges per unit:	$280

The total reduction on the Commission's supposed 1968 savings figure is $3,400,000, reducing its "savings" estimate to $8.5 million.

* The amount used is in the lower segment of the range recorded in the August 1969 issue of Canadian Farm Equipment Dealer ($100 to $325) and on an actual OFA purchase order ($339).

(4) Having identified certain omissions and specific costs which reduce the Commission's estimates, there still remains the single most important element. Direct importation at a high volume would, in the long term, effectively eliminate the existing Canadian farm tractor distribution system. Farmers would then have to find new and large-scale means of ordering, receiving, trading and servicing their imported equipment. While the following considerations are somewhat intangible, any calculation of the total "savings" to farmers requires an experienced jugment of the costs involved. In Study No. 4 released by the Royal Commission, <u>Farmers' Attitudes to Farm Machinery Purchases</u>, the importance farmers place on these services is indicated. The following estimates, which we consider conservative, are based on our experience in the farm machinery industry:

A. Distribution System:

Some new system for ordering and handling tractors and supplying their spare parts would have to be provided. The basic overhead involved would add at least 10% to the purchase price of the imported tractors. <u>$3,200,000</u>

B. Machine Serviceability Factor:

Without an established, orderly and specialized distribution and service system, actively supported by a manufacturer, there could be little assurance of prompt service.

This is an especially important factor during planting and harvesting. As indicated in the report Farmers' Attitudes to Farm Machinery Purchases, farmers value highly prompt and reliable support services which help protect them against expensive disruptions in their work. These services are conservatively estimated by us to be worth at least \$200 (or \$25 annually) during the life of a tractor (estimated at eight years). \$2,400,000

C. Used Tractors:

A direct import program leaves no efficient system for handling used tractors and makes no allowance for the vicissitudes of the used tractor market which are currently absorbed by the dealer system. The farmer, in a private sale, would incur advertising

and transport costs, plus possible reconditioning costs. Further, there is a probability of a reduced sale price if a buyer is not readily found or if the usual dealer warranty is not granted. The above, we estimate, would add a penalty of about $150 per unit. $1,800,000

D. Spring Season Freight Penalty: Approximately one-half of Canadian tractor sales occurs in the spring selling season.

To obtain tractors for the spring involves an inland freight charge during the winter. This amount would be $70 on a 40 HP tractor and $90 on a 50 HP tractor. The total cost shown is reached by applying these figures to one-half of unit sales in 1968: $ 500,000

By these estimates, the total reduction on the Commission's supposed savings is $7,900,000 which, together with the costs enumerated on page 13 , bring the total down to $0.6 million.

There are, in addition, other intangible factors to those identified above which are considered important by the farmer. These would include the uncertainty for the farmer of tractor deliveries, the farmer's preference to test the tractor before his purchase, the lack of dialogue and understanding between the farmer and franchised dealer who is aware of his customer's particular requirements, and the possible abuses of misrepresentation (innocent or otherwise) by direct importers which could create problems for the farmer with respect to his tractor purchase.

Another intangible factor is that those involved in the direct importation into Canada of British-built Massey-Ferguson tractors are not absorbing the cost inherent in establishing the good will and reputation of products bearing the Massey-Ferguson trademark.

In summary, the "savings" of \$14.9 million estimated by the Commission are reduced to \$600,000 by correcting the volume figure (\$2.1 million); competitive pricing reductions (\$0.9 million); unavoidable support costs (\$3.4 million)and distribution overheads (\$7.9 million).

It is our opinion that the "intangible" factors noted earlier would bring the total below the \$600,000 not accounted for in the preceeding paragraph.

Corroboration of Massey-Ferguson's Critique

To test the accuracy of this analysis, comparisons of Massey-Ferguson prices have been made with actual purchase orders of the Ontario Federation of Agriculture (OFA) in its direct import scheme:

"Savings" to Canadian Farmers under OFA Terms

		MF 135		MF 165
Difference between amounts charged on actual OFA order forms* and MF 1969 retail list price (Canada), less special discounts and 16% normal discount; OFA price lower than MF by:		$165		$540
Total industry sales in Canada in 1968 of tractors under 60 HP		x 5674		x 6445
	=	$920,000	=	$3,480,000
Total "savings" before any adjustments			$4,400,000	
Less:				
Cost to farmer of in-transit interest, pre-delivery service and equipment adjustments and repair costs normally absorbed by warranty (items A, C and D on page 13) less			$1,600,000	
Identified intangibles discussed on pages 14-16 applied to 1968 volume less			$7,900,000	
Total increased cost to farmer if all 1968 Canadian tractor requirements under 60 HP were imported under OFA terms			$5,100,000	

* Information from forms used for orders from farmers in Perth and Northumberland Counties, Ontario

From the information available to Massey-Ferguson, it appears that no more than 400 tractors were imported into Canada in 1969 under the type of scheme noted above.

Further Factors Reducing "Savings"

All the above calculations have, wherever possible, been based on 1968 figures, the year which the Commission used for many of its estimates. However, 1968 is an unrepresentative year for meaningful comparisons.

The factor of sterling devaluation in November 1967 cannot be applied in isolation as the Commission has done.

Devaluation of a currency is undertaken in order to adjust a chronic adverse balance of payments by reducing imports and encouraging exports. The benefits of devaluation are often illusory and can be eroded fairly quickly. In the case of Britain, much of the initial benefit of the 1968 devaluation is disappearing through the upward pressure of wages and material costs (e. g., steel prices were increased 10% on January 1, 1970).

Companies engaging in international trade must survive under conditions of constantly fluctuating exchange rates and varying cost patterns dependent upon sources of supply. It is neither practical nor possible for an individual company to adjust prices constantly, either up or down, on the basis of relatively short-term factors. Nor, indeed, could responses of this kind occur in the market place unless competitive conditions permitted.

This is particularly true in the area of currency changes. For example, sterling devaluation occurred when British manufacturing costs had become uncompetitive in international trade. Massey-Ferguson absorbed these growing cost penalties prior to devaluation to remain competitive in the Canadian market.

The cost and price statistics in the Special Report were for 1966-67. They were "up-dated" to a theoretical 1968 level by applying the sterling devaluation factor of 14.3%. This statistical technique omitted several factors in the British situation which became effective coincidental with devaluation and which had the effect of increasing the costs of British manufacturers, including tractor manufacturers. These were: (1) abolition of a 3% export rebate and (2) a special 15% tariff on all imported goods.

In the case of Massey-Ferguson, these factors, together with an increase of the corporate tax rate from 40 to 42.5% retroactive to April 1967, added to the cost of production and operation in Britain an amount equivalent to about 7% of sales. Moreover, since there was no importation by Massey-Ferguson of British-built tractors for reasons of capacity and availability, any comparison of prices that simply applies the 14.3% devaluation factor is unrealistic.

Another special circumstance contributed to the lower tractor prices within Britain. The British Government established in 1966 the National Board for Prices and Incomes to control prices and wages. It is puzzling why the Special Report - an economic analysis dealing with c omparative pricing and cost elements between Britain and Canada-makes inadequate reference to, and no examination of the effect of, British price controls during the period in question. The year 1968 was accordingly an unrepresentative year to choose for meaningful comparisons between supposed production costs and selling prices in the free market conditions of Canada and the controlled price environment of Britain. In 1970, the price differences for the MF 135 and MF 165 tractors in Canada and Britain are markedly less than they were in 1968.

Profits

As for the Commission's assertion that Massey-Ferguson has been making "handsome profits" on its sales in Canada, we have, in fact, incurred lossed in Canada during 1968 and 1969. After-tax profits for Massey-Ferguson Limited on world-wide sales during those years was only 3.1%, which is below the Canadian manufacturing industry's average profit level.

It is puzzling why the Commission did not apply as a test of its estimates the profit information Massey-Ferguson provided to it on a confidential basis. As we stated in a letter to the Commission,

on tractors sold in Canada in 1966, our profit margin was 3.1% after taxes, including profit earned by all subsidiaries involved. The comparable amount in 1969 was 3.2%.

In addition to correcting the various mis-statements about prices and profits, Massey-Ferguson denies categorically that there has been any tacit agreement on pricing with other farm machinery manufacturers.

One other point in the Special Report deserves comment. The impression is occasionally left that Canadian farmers could import from Britain all their tractors. This is not so in the case of Massey-Ferguson, as only tractors in the lower horsepower range (35 to 70) are manufactured in Britain and our factories there only have the available capacity to supply a small portion of our Canadian sales. As the Special Report notes, the higher horsepower tractors are manufactured in Detroit, with the exception of the engine which comes from Britain.

The Commission's Recommentations

In view of what we have stated in the preceding pages regarding costs, prices and competition, there would seem to be little point in commenting in detail on the Commission's seven recommendations.

We should like, however, to make several observations on the "considerations" which the Commission had in mind and on the results apparently it expects can be achieved by it recommendations:

1. "The government should deliberately set out to achieve a lower level of tractor prices for Canadian farmers. Its longer-run goal should be to achieve a level of tractor prices that adequately reflects both the lower production costs which currently prevail in Britain and the additional cost reduction that accompanies large volume production." (p. 95).

   - Massey-Ferguson has no quarrel with the goal of lower tractor prices <u>per se</u> in Canada. Indeed, the competitive situations in Canada under conditions of tariff-free importation has acted and is now acting to produce low prices for tractors. For Massey-Ferguson, current prices do not provide a satisfactory profit return either in Canada or world-wide and we do not see how the Canadian Government can "<u>deliberately</u> set out to achieve a lower level of tractor prices", particularly since the Commission does recognize that "such a goal does not suggest that tractor production or marketing

should become an unprofitable business."

- The reference to volume procution has also been discussed in the preceding pages. In the present state of the industry, in which there is no tractor facility of the size or nature contemplated in the Commission's cost study, this factor is not only elusive but does not operate in any effective degree in the experience of Massey-Ferguson. To correct this situation, the Commission says that between "5 and 10 firms of an efficient size could easily produce all the tractors currently sold in the non-Communist world." Indeed, "the achievement of over-all efficiency in tractor manufacturing will require the <u>elimination of many smaller scale operations</u>" (p. 96). Thus, the Commission disposes of some 15 to 20 tractor companies - none of which is based in Canada - and leaves it to the Canadian Government, presumably, to determine how this is to be achieved.

2. The Commission's recommendations are restricted to tractors. It then states <u>"there may well be room for equivalent recommendations with respect to combines</u>."

The Commission goes on to recommend that a cost study be made of combine harvester production costs, with the implication that West Germany should be the reference point since wholesale prices appear to be lower there than in Canada.

- Massey-Ferguson notes with interest that West Germany now replaces Britain for purposes of price comparison. However, the upward valuation of the German mark in October 1969 has changed the pricing comparisons adversely for Canada relative to West Germany. This fact serves to reinforce our previous comment that exchange rates are constantly fluctuating and, along with them, relative costs and prices. This is obviously one of the major problems for any international company. Massey-Ferguson is well aware of the complexities and difficulties inherent in operating on that basis. The Commission does not appear to have given full consideration to this key element of international business in its analyses of costs and prices.
- As the largest manufacturer of combines in Canada, Massey-Ferguson is concerned with the suggestion that the Commission's approach to combines would parallel

its attitude toward tractor production. If this means, as it suggested for tractors, that the number of manufacturers of combines be reduced in the interests of over-all efficiency, it raises a serious question as to the future viability of combine manufacturing in Canada.

3. Finally, the Commission refers to "the degree of independence from normal competitive market forces that exists in /the Canadian/ market" which the multinational companies supposedly enjoy.

- Once more, Massey-Ferguson wishes to emphasize a fact that must be well known to the Commission and to the Government. The Canadian market for farm machinery is completely free and has not been protected by tariff barriers since 1944. Thus, any tractor manufacturer - Japanese, Czechoslovak, German, British, etc. - has had full freedom to import and sell tractors in Canada for the past 25 years.
- Normal competitive prices do exist in Canada as is shown by evidence in the preceding pages. To state the case bluntly, the so-called "very handsome profit margin" (p. 92) referred to by the Commission appears to exist only in the theoretical cost and price statistics which the Commission has published. It certainly does not exist for Massey-Ferguson in 1970 - nor did it exist in 1969, 1968 or 1967.

Exhibit I

COMPARATIVE DISTRIBUTION AND OVERHEAD COSTS
MF ACTUAL VS. ROYAL COMMISSION PROJECTION
DETROIT PRODUCED MF 165 TRACTOR SOLD IN CANADA

Category	Massey-Ferguson	Royal Commission	Amounts - 1968 Data Massey-Ferguson	Amounts - 1968 Data Royal Commission
1. Finance Programs offered to Retail Customers	An average of 90% of the dealer invoice amount is financed for an average of two months at a cost, including interest, insurance and handling, of 11½%	75% of dealer invoice amount is financed for an average of 3½ months at a cost of interest of 7½%	$ 75	$ 60
2. Dealer Interest Free Floor Plan	New Equipment - Dealer invoice amount is financed for an average of 6 months at a cost of 10%	New Equipment - Dealer invoice amount is financed for an average of 8 months at a cost of 7½%	216	194
	Used Equipment - 1/6 of new equipment amount (Determined as follows: An average of 20% of the dealer invoice amount on a new similar tractor is financed for about 5 months at a cost of 10%)	Used Equipment - ¼ of new equipment amount.	36	50
3. Company Inventory Carrying Costs	Actual fully absorbed manufacturing cost is financed for an average of 3 months at a cost of 10%.	Estimated transfer price of 61% of suggested list price plus ocean freight from Britain, financed for an average of 3 months at 7½%.	60	60
4. Selling, General and Administrative Expenses	North American 1968 actual selling, general and administrative expenses as a percentage of actual net sales - 16.1%	International Harvester and Deere's 1965 and 1966 published world-wide selling, general and administrative expenses as a percentage of published net sales - 11%	638	398
5. Research and Development	North American actual research and development expenses as a percentage of actual net sales - 3.1%	World-wide published research and development expenses as a percentage of published net sales - 2.75%	123	100
6. Machine Storage Costs	Tractor storage costs applied evenly to units of production	Not included. Not in the Commission's built-up manufacturing cost and not in the amount used for selling, general and administrative expenses as machine storage is included in the "cost of goods sold" heading in the annual report.	57	-
		Totals	$1,205	$ 862
		Difference	$343	

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